AMERENCIPS/UE EXHIBIT NO. 20.0

ILLINOIS COMMERCE COMMISSION

DOCKET NOS. 02-0798/03-0008/03-0009 (Consolidated)

REBUTTAL TESTIMONY

OF

PHILIP B. DIFANI, JR.

Submitted On Behalf

Of

CENTRAL ILLINOIS PUBLIC SERVICE COMPANY

d/b/a AmerenCIPS

and

UNION ELECTRIC COMPANY

d/b/a AmerenUE

May, 2003

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Q. Please state your name and business address.

A. My name is Philip B. Difani, Jr. My business address is One Ameren Plaza, 1901 Chouteau Avenue, St. Louis, Missouri, 63103.

Q. Are you the same Philip B. Difani, Jr. who filed direct testimony in this proceeding?

A. Yes, I am.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to address, on behalf of Union Electric Company, d/b/a AmerenUE ("AmerenUE") and Central Illinois Public Service Company, d/b/a AmerenCIPS ("AmerenCIPS") (collectively referred herein as the "Company"), certain portions of the direct testimony of Illinois Commerce Commission ("Commission") Staff ("Staff") witnesses Peter Lazare and Charles Iannello, Citizen

Utility Board ("CUB") witness Richard Galligan, and Business Energy Alliance and Resources ("BEAR") witness Lee Smith based upon my review of their direct testimony in this case.

REBUTTAL TO DIRECT TESTIMONY OF STAFF WITNESS LAZARE

Q. On page 3 of his direct testimony, Mr. Lazare states that the Company has deviated from the allocation method approved by the Commission in its most recent case and the Company did not explain why the currently approved method is inappropriate for the current proceeding. Do you agree?

A. In general, Mr. Lazare's statements are correct. However, the Company is not required to either adhere to the method approved by the Commission in the last case or explain why such method is inappropriate in the filing of its next direct case. Instead, my direct testimony in this case provides adequate support and explanations for the allocation method proposed by the Company.

Q. Additionally, on page 3 of his direct testimony, Mr. Lazare states that the Commission's Order in Docket Nos. 98-0545 and 98-0546 represent its current thinking as to what is just and reasonable for designing AmerenCIPS' gas rates. Do you agree?

A. No, I do not. The order mentioned was issued more than four years ago. While the presumption is that the Company's current rates are just and reasonable, the current filing gives the Commission a new opportunity to review the justness and reasonableness of the Company's rates. The Commission may, based on the evidence in

this case, adopt a different method for determining the Company's rates than the Commission previously approved.

Q. On pages 4 and 5 of his direct testimony, Mr. Lazare provides an explanation of what he considers the principal problems with the Company's cost of service study, namely the cost allocation method used in allocating transmission and distribution plant. Please explain the Company's allocation of transmission plant.

A. The Company's transmission plant facilities are designed and constructed to provide for the bulk transmission of gas to its customers, similar to an electric utility's transmission plant facilities. Transmission plant mains are typically higher-pressure lines capable of delivering larger volumes of gas as opposed to lower-pressure distribution plant mains. There is a substantial body of theory for both electric and gas utilities (including the Gas Rate Design manual published by NARUC in 1981) that recommends either a coincident, non-coincident, or Average and Excess method of allocation for transmission plant. The Company utilized the non-coincident allocation method in order to properly reflect the transmission costs that are incurred by the Company in serving all of its customer classes. Such an approach gives appropriate weighting to gas usage from all of the Company's customer classes, regardless of their use at the time of system peak, and ensures that each customer class pays its equitable share of the costs associated with the Company's transmission plant.

Q. Moving now to the Company's allocation of distribution plant, please explain the basis for its allocation method.

A. The Company's distribution plant facilities are designed and constructed to provide for the local distribution of gas to its customers, similar to an electric utility's

distribution plant facilities. Distribution plant mains are typically lower pressure lines capable of delivering smaller volumes of gas as opposed to higher-pressure transmission plant mains. As stated earlier for transmission plant mains, there is a substantial body of theory for both electric and gas utilities (including the Gas Rate Design manual published by NARUC in 1981) that recommends either a coincident, non-coincident, or Average and Excess method of allocation for distribution plant. The Company utilized the Average and Excess method, which weights each class' average demand by the system load factor and its excess demand by one minus the system load factor, to properly reflect the distribution mains' costs that are incurred by the Company in serving all its customers classes. The use of average and excess demands in this method somewhat tempers an allocation based solely on demands for the determination of each class' respective responsibility for the Company's significant costs and associated expenses for distribution plant. The results of this allocation method produce fair and reasonable cost assignments for each of the Company's customer classes.

Q. A major area of difference between Mr. Lazare's cost allocation and the Company's is in the area of allocation of distribution plant mains. Mr. Lazare proposes to use the Average and Peak ("A&P") method and, as discussed earlier, the Company has used the Average and Excess ("A&E") method. Please describe the A&P method.

A. Essentially, this method reflects a compromise between the coincident and non-coincident demand allocation methods. Each respective class' average demand is multiplied by the system's load factor to arrive at the capacity costs attributed to average use, which are then apportioned to the various customer classes on an annual volumetric

basis. The remaining costs are considered to have been incurred to meet peak demands of the various classes of service and are allocated on the basis of the coincident peak of each class.

Q. Please describe the similarities and differences between this and the A&E methodology.

A. Both approaches allocate cost to all classes of customers and temper the apportionment of costs between high and low load factor customers. Both approaches allocate average costs exactly the same way based on average class volumes times the load factor. However, for the A&P methodology, the remaining costs are allocated based on coincident peak demand, a portion of which has already been allocated in the average component. In contrast, the A&E methodology allocates the remaining costs based on the difference between the non-coincident peak and the previously allocated average demand.

Q. Conceptually, what is the difference between using the coincident peak, or using the difference between the non-coincident peak and the average for the allocation of distribution plant investment?

A. The use of the coincident peak in the A&P method double counts the portion of the average use previously described. Since all the volumes at coincident peak are considered to be demand-related and allocated as such, it is illogical to double count the average demand component and then allocate these using a volumetric approach. Either they are demand related or average use related. However, as stated earlier, the A&P method allocates these volumes using two different standards. Thus, the A&P method can unduly penalize customers with higher load factors because it counts the

average component twice. Penalizing these high load factor customers who utilize the fixed distribution system more efficiently than lower load factor customers is both economically unsound and inequitable.

Q. Will a distribution main allocation method that relies on customer classes' coincident peaks equitably allocate costs to customer classes who do not contribute to these peaks?

A. No, typically the distribution system must be capable of delivering service to all customers at all times. An allocation method that inherently ignores this fact will not properly allocate costs to each class. Customers who either do not use gas at system peak or who peak at a time different from the coincident peak (i.e., the non-coincident peak) must still have facilities in place to serve their highest load.

Q. Do your comments above generally address the issues concerning the Company's allocation of transmission and distribution plant raised by Mr. Galligan and Ms. Smith?

A. Yes, they do.

Q. Are there other areas where the Company's cost of service studies differ from the Staff's?

A. Yes, and these areas can be summarized as follows:

Account 383: House Regulators – Staff's allocation for this plant account was based simply on each class' respective total installed meter cost, whereas the Company allocation was based on a more comprehensive study of the Company's investment in meters and regulators by customer class. The Company's comprehensive study, which examined each class' total installed meter costs and associated regulator

costs, more equitably allocates the Company's investment in this account and, as a result, should be adopted by the Commission.

Account 386: Property on Customer Premises – Staff's allocation for this plant account was based simply on the cost of meters, whereas the Company's allocation of a portion of the cost was based on more specific Company records for costs associated with the residential class with the remainder allocated to the other customer classes based on previously allocated distribution plant. The Staff's meter based allocation has no tie to the investment in this account and should be rejected by the Commission. Instead the Commission should adopt the Company's allocators based on the use of actual cost data for the residential class and a distribution plant allocator for the remaining classes. It is clear that the Company's allocation more closely tracks the costs incurred by class in this account than does the Staff's.

Account 879: Customer Installation Expense – Staff's allocation for this expense account was based on its service line allocator, whereas the Company's allocation was based on previously allocated distribution plant. While the Company has no specific data on the class distribution of expenses in this account, the account includes items such as leak testing, re-lighting pilot lights, activating and disconnecting meters, and any situations that require Company personnel to visit the customers' premises. As these activities are performed for all customer classes and go well beyond the "service line", the Company's allocation based on previously allocated distribution plant more equitably reflects the costs associated with the full range of expenses in this account than does the Staff's "service line" allocator. Therefore, the Commission should accept the Company's allocation of expenses in this account.

Account 902: Meter Reading Expenses – Staff's allocation was based on meters for AmerenCIPS and AmerenUE, whereas the Company's allocation was based on a meter reading time study by customer type/class for AmerenCIPS and the number of meters by class for AmerenUE. The Staff's use of a meter allocator assumes that meter-reading expenses are directly related to the cost of the meter. This is to say that if Meter A costs ten times as much as Meter B, then it costs ten times as much to read Meter A than it does to read Meter B. This assumption is totally incorrect. While typically there is some correlation between the meter cost and reading cost, there is not a linear relationship. Therefore, the Company's time study of meter reading cost by class should be adopted by the Commission for allocation of this account for AmerenCIPS. However with regard to AmerenUE, automated meter reading ("AMR") devices are used for all customers. The use of AMR devices for all AmerenUE customers results in the same reading costs per meter for all customers and, therefore, the allocation of these expenses on a per meter basis is justified. As explained above, the Company's allocators more closely track the expenses incurred by the Company for this account and should be adopted by the Commission.

Accounts 912-916: Demonstration and Selling, Advertising, and Miscellaneous Sales Expenses – Staff's allocation for these expense accounts was based on revenues, whereas the Company's allocation for these accounts was based on previously allocated customer accounts expense. These accounts contain expenses associated with demonstrating, selling, advertising, and other miscellaneous sales activities. While there is no precise way to allocate these types of expenses, the Staff's use of class revenues to allocate these expenses results in gas transportation customers

evading a large portion of these expenses. This occurs due to transportation customer class' revenues containing only margin or base revenues, while each other class' revenue contains both margin and gas supply revenues. The Company's use of previously allocated customer service expenses for allocating expenses in these accounts more closely reflects cost causation and ensures that all customers pay an equitable share of expenses in these accounts.

REBUTTAL TO DIRECT TESTIMONY OF STAFF WITNESS IANNELLO

Q. Please comment upon Mr. Iannello's testimony on page 24, whereby he states that costs associated with propane plant and expenses and the carrying costs of working gas in storage should be allocated only to sales customers.

A. Based on the Company's current tariffs and the operation of its gas system, I accept Mr. Iannello's argument that transportation customers do not use propane and Company owned storage plant and thus should not be allocated any costs associated with same. I propose to allocate these assets and related expenses to sales customers based on usage. I would also note that this is consistent with the way the Company currently allocates the cost of carrying charges for natural gas in storage. However, I propose that after the Commission establishes class revenue requirements for this case, the resultant rates should contain separately stated delivery charges for each of the General Service and Large Use classes.

Q. If the Commission accepts these changes to the Company's allocations of propane plant and expenses and the carrying costs of working gas in storage,

could the resultant rates provide an incentive for more customers to switch to gas transportation?

A. Yes. This concept, which is commonly referred to as rate migration, could occur. If the rate design approved by the Commission in this case provides an incentive to customers to migrate from sales to transportation service, then class billing units should be adjusted to ensure the Company has a reasonable opportunity to earn the rate of return authorized by the Commission in this case.

REBUTTAL TO DIRECT TESTIMONY OF CUB WITNESS GALLIGAN

Q. On pages 14 and 15 of his testimony, Mr. Galligan discusses his proposed allocation of mains investment. Please comment.

A. Mr. Galligan has proposed a 50% allocation of distribution mains on peak demand with the remaining 50% being allocated on annual usage. However, he has provided no analytical support whatsoever for his proposed "50%" allocators. This arbitrary method of allocating significant distribution main investment and associated expenses violates the longstanding Commission principle that costs should be allocated equitably. As a result, Mr. Galligan's proposal should be rejected by the Commission.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.